

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

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MEMORANDUM FOR THE CABINET

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SUBJECT: Nondefense Spending

This memo provides some new analysis of nondefense spending and updates the material that I presented at the recent CCEA meeting.

The estimates of nondefense spending as a share of GNP that I presented at the CCEA meeting were based on the April economic forecast. The numbers in the present memo are based on the midyear revision of the forecast and on the midyear revision of the expected outlays.

Table 1 shows total domestic spending (i.e., all government spending except defense and net interest) as a percentage of GNP. The first line shows the current services level while the second line shows the Administration's budget request. For comparison, the 1980 share and the annual GNP forecasts are also shown.

Table 1

	<u>Domestic Spending</u> <u>Percentage of GNP</u>						
	<u>1980</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Current Services Level	15.1	15.7	14.5	14.1	13.7	13.4	13.1
Administration's Request	15.1	15.7	14.1	13.4	12.9	12.5	12.2
GNP (\$ Billion)	2576	3218	3553	3888	4233	4600	4997

Three things should be noted about these figures. (1) The rise in the domestic spending share of GNP between 1980 and 1983 is wholly due to the recession. With the 1980 level of unemployment, the 1983 GNP share would be 14.0 percent and the share in subsequent years through 1987 would also be lower.

- 2 -

(2) The projected spending reduction is dramatic. If the 1986 level were instead to remain at the current 15.7 percent of GNP, domestic spending would be \$86 billion above the current services level. (3) Although the Congressional Budget Resolution figures are not directly comparable to these Administration figures, when the figures are made comparable the Congressional Budget Resolution calls for almost exactly the current services level of spending for 1984 through 1986. Thus the Congressional Budget Resolution calls for an \$86 billion domestic spending cut by 1986 relative to the 1983 GNP share.

When the two major trust funded programs (Social Security and Medicare) are excluded, the decline in the domestic spending share of GNP is even more dramatic. This is shown in Table 2.

Table 2

Domestic Spending
Excluding Social Security and Medicare

(Percentage of GNP)

	<u>1980</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Current Services Level	9.3	8.8	7.8	7.4	7.0	6.7	6.4
Administration Budget	9.3	8.8	7.4	6.7	6.3	6.0	5.7
GNP (\$ billion)	2576	3218	3553	3888	4233	4600	4997

As I mentioned at the CCEA meeting, spending on these activities was 6.9 percent of GNP in 1970 so that even the current services level would soon have us back to the range of the late 1960's.

An indication of the spending cuts implied by the current services budget is shown in Table 3. These figures show the amounts by which spending is reduced relative to the levels that would prevail if spending had continued at the 1980 share of GNP. For example, reducing General Domestic Spending i.e., the trust funded programs) from 9.3 percent of GNP in 1980 to 7.0 percent in 1986 implies a reduction by 2.3 percent of the 1986 GNP of \$4233 billion or \$97.5 billion.

- 3 -

Table 3

Cuts in Domestic Spending
Excluding Social Security and Medicare
Relative to 1980 GNP Share
(\$ billion)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Current Services Level	15.5	53.5	74.9	97.5	119.3	144.4
Administration Request	15.4	65.3	99.5	126.5	153.2	181.5

Holding the line at the current services level would achieve more than three-fourths of the spending cuts relative to the 1980 GNP share that were requested in the Administration budget. The actual appropriations bills coming out of Congress have actually been very close to the Administration request level.

Congressional Budget Resolution

The Congressional Budget Resolution for 1984-86 proposes to hold nondefense spending to the current services level and therefore to apply any additional tax revenue to reducing the deficit.

Table 4

Domestic Spending
(\$ billion)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1984-86</u>
Current Services	511.2	536.8	565.4	1613.4
Congressional Budget Resolution	512.4	538.4	562.4	1613.2
Congressional Spending Change	+1.2	+1.6	-3.0	-0.2

These figures are from the Congressional Budget Office and are not exactly comparable to OMB numbers. OMB says that this is the best way to compare Congressional Budget Resolution numbers with the current services level. (I should note that I have ignored the amount that the Budget Resolution put in a so-called "reserve" category to get the liberals' support for the budget.)

- 4 -

Note that the Congressional Budget Resolution described here is the final conference version and not the April House version which called for substantial spending increases.

It is also very interesting to note that, after adjusting for inflation, the Congressional Budget Resolution represents no increase in domestic spending from 1983 through 1986. The following figures compare current dollar domestic spending (the first column) and then spending in 1983 dollars (the second column):

Table 5

	<u>Congressional Budget Resolution</u> <u>Domestic Spending</u> (\$ billion)	
	<u>Current</u> <u>Dollars</u>	<u>At 1983</u> <u>Prices</u>
1983	504.7	504.7
1984	512.4	489.4
1985	538.4	490.8
1986	562.4	491.2

Although the decline in real domestic spending reflects lower benefits to the unemployed and lower CCC payments, even without these savings real domestic spending would rise by less than 1 percent a year.

With levels of spending essentially constant, the Congressional Budget Resolution level of domestic spending as a share of projected GNP declines substantially:

Table 6

	<u>Congressional Budget Resolution</u> <u>Domestic Spending</u> <u>Percentage of GNP</u>
1983	15.7 percent
1984	14.5 percent
1985	13.9 percent
1986	13.4 percent

These domestic spending figures include Social Security and Medicare. Without Social Security and Medicare, the

- 5 -

spending decline proposed in the Congressional Budget Resolution is even more dramatic. The Congress proposed to leave the dollar level of outlays essentially unchanged between 1983 and 1986 (column 1), causing real outlays in 1983 dollars (column 2) and the percentage of GNP (column 3) to decline rapidly.

Table 7

Congressional Budget Resolution
Domestic Spending, Except Social
Security and Medicare

	<u>Current</u> <u>Dollars</u> <u>(billions)</u>	<u>1983</u> <u>Dollars</u> <u>(billions)</u>	<u>Percentage</u> <u>of GNP</u>
1983	283.9	283.9	8.8
1984	275.4	263.0	7.8
1985	282.5	257.5	7.3
1986	286.5	250.2	6.8

This would represent a remarkable decline in both real spending and the GNP share, bringing the GNP share back to the level of the 1960's. Again, I would note that the actual FY 1984 appropriations bills that are coming out of Congress are even lower than these Congressional Budget Resolution amounts.